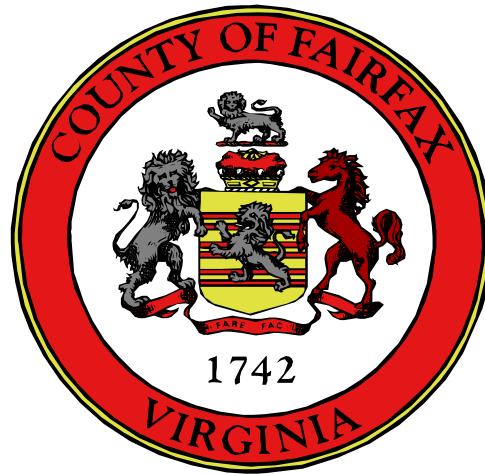


# INTERNAL AUDIT REPORT

## Review of Direct Pay Vouchers



*Fairfax County Internal Audit Office*

**FAIRFAX COUNTY, VIRGINIA  
INTERNAL AUDIT OFFICE  
M E M O R A N D U M**

**TO:** Anthony H. Griffin  
County Executive

**DATE:** August 28, 2000

**FROM:** Ronald A. Coen, Director  
Internal Audit Office

**SUBJECT:** Report on the *“Review of Direct Pay Vouchers”*

This is a report on the *“Review of Direct Pay Vouchers”*. It was performed as part of our FY2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

RAC:df

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## Introduction

The Department of Finance (DOF), Accounts Payable Section, serves 86 County operating departments by verifying that all information fields for Direct Pay Vouchers have been completed properly by the initiating department and authorizes final posting to the County's Financial Accounting & Management Information System (FAMIS). DOF requires all departments to route their direct pay documents to DOF for final approval. For Fiscal Year 1999, the Accounts Payable section reviewed approximately 57,000 direct payment vouchers, totaling \$61.9 million. This compares to Fiscal Year 2000 direct payment vouchers of approximately 60,000 totaling \$74.7 million that represents an increase of 5% and 21% respectfully from Fiscal Year 1999.

A direct pay voucher is used to process a payment for a County liability mandated by the Virginia Code, County Ordinances, Board of Supervisors resolutions and other similar regulations. Direct pays are one of the six major ways used by County departments to procure goods and services. In FY 1999 direct pays represented roughly 14% of these major procurement methods and over 15% as of May in FY 2000. This volume is consistent with a modest increase in view of volume gains in the procurement card program. Accounting Technical Bulletin (ATB) 015 is the financial and accounting policy that County departments follow in processing direct pay transactions. According to ATB 015, a direct payment voucher is used to pay a one-time County obligation that is incurred under circumstances for which procurement/encumbrance action is not appropriate. Some examples of liabilities for which the direct pay voucher may be used are:

- Refunds (i.e., County taxes, class fees, security deposits, rents)
- Replenishment of petty cash fund
- Social welfare assistance
- Payroll adjustments and consolidated deduction payments.
- Published subscriptions
- Membership dues

Fundamental to all accounting functions is a system of principles and practices intended to protect the assets of the organization and to ensure the integrity of the financial process. That system is often referred to as the organization's "internal controls". While these systems may be tailored to the specific needs of each organization, there are certain fundamental principles, which must be found in every department. The effective management of direct pay voucher processing should include appropriate segregation of duties to prevent errors, and deter fraud and improprieties.

## Purpose and Scope

This audit was performed as part of our FY 2000 long-range Audit Plan. Our audit objectives were to determine that:

- Direct Pay Vouchers are being processed in accordance with laws, regulations and County policy;
- Determine that Direct Pay expenditures are based upon a recognized liability, is accurately prepared, recorded, reconciled, reviewed and approved;

- Determine access to disbursement records critical forms, processing areas and processing procedures are permitted only in accordance with management's policy.

We selected Five County departments to evaluate their compliance with DOF guidelines (ATB 015- *Direct Pay Voucher* and Department of Finance Notice (DFN) 020-1- *Account Payable Internal Controls*). We selected the following departments with medium and large operations.

- Department of Information Technology
- Department of Family Services
- Health Department
- Public Library
- Department of Public Works & Environmental Services (DPW&ES) -Office of Site Development Services

We also determined if DOF rules and regulations provide reasonable assurance that direct pay vouchers are used for one-time purchases within the correct category of expenditures as outlined in ATB 015.

The audit period covered June 1999 (end of Fiscal Year 1999) and January through March 2000. The benefits of this audit include stronger controls, improved performance, and to inform management on departmental compliance to direct pay policies.

## Methodology

Our objective was to determine if proper separation of duties and appropriate level of system access, are in place and being followed by the five County departments and that direct pay vouchers were being processed in accordance with Department of Finance financial and accounting policies. We reviewed and analyzed internal control procedures, direct pay voucher payments, system access levels and related accounting records at the five County departments. Our review included interviewing appropriate County employees, examinations of direct pay voucher payments, reports, and DOF policies and procedures. We also tested FAMIS authorization levels for those who initiate and approve financial documents. The audit was conducted in accordance with generally accepted government auditing standards.

## Executive Summary

In our opinion, from our review of the Direct Pay Voucher payment process at five County departments, we found that the principles of separation of duties, reviewing, initiating and authorization of financial transactions were adequate and operating effectively.

The following opportunities for enhancements to controls and limiting County liability are discussed in detail in the report.

- We were unable to audit for compliance of direct pay vouchers to County policy. Department of Finance (DOF) has one County policy addressing the processing of direct pay voucher payments (Accounting Technical Bulletin (ATB) 015, issued in January 1996). Revisions to properly reflect the expanded expenditure categories that are currently being used by County departments should be made to this ATB. We found 40% of the direct pay transactions tested did not conform to the categories of allowable expenditures. However, we did not find these exceptions to be in violation of proper purchasing procedures.
- Department of Finance, Procedures and Controls Division, was not complying with Department of Finance Notice (DFN) 020-2, *Document Initiation and approval*, January 1999. According to the DFN, the FAMIS Administrator upon discovering a document that has been both initiated and approved by the same person is required to immediately suspend the user's access to FAMIS. The Administrator did not immediately suspend the user. We recommend DOF comply with DFN 020-2. This should include notification of supervisory personnel in departments.

A conflict with the separation of duties principal exists in that individuals involved in the processing of direct pay vouchers have the 500-system level authority. This access profile (500-level) allows individuals to **initiate and approve** the same financial transaction in FAMIS. However, DOF monitors such activity through a daily "Duplicate Signature Report". As noted above, the monitoring of duplicate signatures by DOF is an after-the-fact detective control that is effective when immediate measures are taken to investigate each occurrence.

During our examination of the five departments selected for their compliance to the DOF guidelines, minor deficiencies in internal controls, voucher processing steps, and the absence or outdated internal procedures were discussed and resolved with the departments.

## Comments and Recommendations

**1. Department of Finance (DOF) has documentation called the Accounting Technical Bulletin (ATB) 015 to guide County departments process direct pay voucher payments. However, the ATB is outdated and requires a revision to include the expenditure categories that are currently being used by County departments.**

DOF's Accounting Technical Bulletin (ATB) 015 is the County policy for processing direct pay voucher payments. The ATB has not been updated since January 1996 to reflect the current expenditure categories and the direct pay voucher process to guide the County departments. The category of allowable expenditure needs to be updated to conform to current operations. For example, some departments sampled were using direct pay vouchers for postage, supplies, licenses and travel. Direct pay voucher documentation provides departments with County policy guidelines for processing one-time vendor payments. Documentation should remain current in order to give an up-to-date information to departments.

With the implementation of CASPS and FAMIS 4.2 systems, many of the ATBs are currently outdated and are not in conformance with these systems. DOF is reviewing all ATBs for needed updates, however, due to the myriad of changes anticipated, it will take time to complete this task. In the meantime, Department of Finance Notes (DFNs) are being prepared as guidelines to departments until the ATB is updated.

### Recommendation

We recommend DOF update all ATBs. ATB 015 *Direct Pay Voucher* is one of the financial processes that need to be scheduled for updating. DOF and DPSM management and staff that are involved in the one-time payment process should jointly review the ATB 015. Revisions should be a coordinated effort on what changes are needed. Changes should be passed to the DOF Policy Coordinator. The Coordinator should communicate any changes to the County departments. The DOF Policy Coordinator should identify a contact person at each department to receive the ATB. The contact person should be responsible to communicate all changes to the appropriate staff.

### Agency Response

The Department of Finance had already established a team to facilitate the update of all ATBs and work has begun. I anticipate that this project will take two years to complete. Our plan includes consultation with the affected agencies so that we prioritize this effort correctly and include relevant subject matter that might now be missing.

**2. The FAMIS Administrator or its designate upon discovering a FAMIS financial document initiated and approved by the same person is not following the proscribed action outlined in the Department of Finance Notice (DFN) 020-2 *Document Initiation and Approval*.**

Each person with access to FAMIS is assigned a system level of authorization denoted by either 100 (initiate or 500 (initiate and authorize) level with monetary limitations. Level 100 was created for a person whose job is solely to enter FAMIS transactions based on a source document. Level 500 is the final staff approval within the department before the transaction is posted in FAMIS. According

to the DFN 020-2, the FAMIS Administrator upon discovering a document that has been both initiated and approved by the same person will immediately suspend the user's access to FAMIS. Immediate suspension of user's access is currently not being done by the Administrator. The user and the user department's Security Coordinator are to be contacted by telephone to determine the circumstances surrounding the unauthorized document approval. Only the user who has committed the violation is being contacted. The Administrator is to report the event to the Director of Finance.

A written request from the department head explaining the breakdown of internal controls and the measures taken to prevent recurrence is sufficient to reinstate the user. Instead, the event is not being reported to the Director of Finance and the agency head is not required to provide a written explanation of the violation. The user's security access to FAMIS is to be restored upon the Director of Finance's acceptance of the agency's plan for corrective action.

Whether accidentally or intentionally not complying with the two-person rule is considered a serious event. Recurrence could result in a breakdown of internal controls and a violation of the separation of duties principle. Due to staff changes, the prescribed DOF policies were not communicated to new staff. The FAMIS Administrator was not familiar with DFN 020-2 that outlines the actions to be followed for breaching the financial document initiation and approval restrictions.

### **Recommendation**

We consider the monitoring of the "Duplicate Signature Report" by DOF to be a critical control in identifying duplicate signature violations. The FAMIS Administrator upon discovering a document that has been both initiated and approved by the same person should immediately suspend the user's access to FAMIS. The user and the user department's Security Coordinator should be contacted by telephone to determine the circumstances surrounding the document's approval. The Administrator will report the event to the Director of Finance. The Director should request that the user's department head provide a written explanation of the breakdown of internal controls and the measures taken to prevent recurrence. The user's security access to FAMIS should only be reinstated upon the Director of Finance's acceptance of the department's plan for corrective action.

### **Agency Response**

We will continue to monitor this report daily and we will increase efforts to follow the plan laid out in the Department of Finance Notice (DFN) 020-2, Document Initiation and Approval. Recognizing that not all rule infractions are of equal gravity, we will continue to exercise judgement in applying these controls.